

**STATE OF DELAWARE**  
**OFFICE OF**  
**AUDITOR OF ACCOUNTS**

**RED CLAY CONSOLIDATED  
SCHOOL DISTRICT**

**CONTRACTUAL SERVICES**

**SPECIAL INVESTIGATION**

**FIELDWORK END DATE: FEBRUARY 8, 2007**

**R. THOMAS WAGNER, JR., CFE, CGFM, CICA**  
**AUDITOR OF ACCOUNTS**

Townsend Building, Suite 1  
401 Federal Street  
Dover, DE 19901  
TELEPHONE 302-739-4241  
FACSIMILE 302-739-2723

[www.state.de.us/auditor/index.htm](http://www.state.de.us/auditor/index.htm)

---

# EXECUTIVE SUMMARY

---

## **ALLEGATION**

The Office of Auditor of Accounts (AOA) received a complaint regarding NOR Enterprises, Inc. The allegation states that:

- No services are being provided in return for the funds expended.

## **BACKGROUND**

NOR Enterprises, Inc. provides social, health, education, and training programs to “hard to reach” youth and teen populations. NOR Enterprises, Inc. has a staff of twelve part time and full time mentors, counselors, consultants, and outreach workers. NOR Enterprises, Inc. also has community volunteers who provide counseling, computer training, motivational talks, and one-on-one tutoring. NOR Enterprises, Inc. provides services at schools, community centers, and New Castle County Detention Center.

During the period of July 1, 2005 through October 31, 2006, the Red Clay Consolidated School District (the District) made payments of \$261,500 to NOR Enterprises, Inc.

A previous investigation of Red Clay Consolidated School District issued by AOA in April of 2005 included a review of payments to NOR Enterprises, Inc. AOA found that with regards to NOR Enterprises, Inc. the District did not comply with State procurement laws, there were no District records documenting that services were received from NOR Enterprises, Inc. and the District did not monitor contract performance.

## **CONCLUSIONS AND OBSERVATIONS**

The documentation received by the District from NOR Enterprises Inc. did not sufficiently reflect the services that were performed at the schools during the period of July 1, 2005 through October 31, 2006, and as a result AOA could not determine from the documentation alone that the District received all the services as outlined in the contracts. Management authorized payments to Nor Enterprises, Inc. and they were not supported by appropriate documentation and monitoring of the services provided.

- The payments made by the District had inadequate supporting documentation and the business office does not reconcile the invoices to records of services performed.
- There were minimal records of services received by the District from NOR Enterprises, Inc. and no records of services prepared or maintained by the District or the Schools. Neither the District nor the Schools prepared or maintained records of services received from NOR Enterprises, Inc. including goals and objectives to be accomplished by NOR Enterprises, Inc., who received the services, the dates and times the services were received, who rendered the services, and other pertinent information regarding services.

---

# EXECUTIVE SUMMARY

---

- The District did not comply with State Bid Laws for the procurement of services from NOR Enterprises, Inc. totaling \$232,500 during fiscal year 2006. There were Supplemental Educational Services (SES) contracts with NOR Enterprises, Inc. in effect during the period July 1, 2005 to June 30, 2006. However, the services received from NOR Enterprises, Inc. were not Supplemental Educational Services (SES), as defined by Department of Education (DOE) guidelines for Supplemental Educational Service Providers. This condition was disclosed to the District in a previous audit report by AOA dated April 20, 2005, and not corrected by the District.
- The District did not comply with State Bid Laws for the procurement of services from NOR Enterprises, Inc. totaling \$29,000 from July 1, 2006 through October 31, 2006. During this period the District contracted with NOR Enterprises, Inc. as a sole source provider. The District's sole source documentation for NOR Enterprises, Inc., dated August 23, 2006, is not in accordance with the provisions of 29 Del. C. Section 6985, Sole Source Procurement, that state there must be sufficient evidence that there is only one source, that no reasonable alternative sources exist, and documentation shall include the specific efforts made to determine the availability of any other source. The fact that the District issued a Request for Proposals (RFP) in October 2006, identical to the terms of the agreement in effect with NOR Enterprises, Inc. at the time and received five proposals supports the fact that NOR Enterprises, Inc. is not a sole source provider.

---

# TABLE OF CONTENTS

---

Audit Authority	1
Allegation and Background	2
Objectives, Scope, and Methodology	3
Conclusions	4
Findings and Recommendations	5
Distribution of Report	16

---

# Audit Authority

---

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

---

# ALLEGATION AND BACKGROUND

---

## **ALLEGATION**

The Office of Auditor of Accounts (AOA) received a complaint regarding NOR Enterprises, Inc. The allegation states that:

- No services are being provided in return for the funds expended.

## **BACKGROUND**

NOR Enterprises, Inc. provides social, health, education, and training programs to “hard to reach” youth and teen populations. NOR Enterprises, Inc. has a staff of twelve part time and full time mentors, counselors, consultants, and outreach workers. NOR Enterprises, Inc. also has community volunteers who provide counseling, computer training, motivational talks, and one-on-one tutoring. NOR Enterprises, Inc. provides services at schools, community centers, and New Castle County Detention Center.

During the period of July 1, 2005 through October 31, 2006, the Red Clay Consolidated School District (the District) made payments of \$261,500 to NOR Enterprises, Inc.

A previous investigation of Red Clay Consolidated School District issued by AOA in April of 2005, included a review of payments to NOR Enterprises, Inc. AOA found that with regards to NOR Enterprises, Inc. the District did not comply with State procurement laws, there were no district records documenting that services were received from NOR Enterprises, Inc. and the District did not monitor contract performance.

---

# OBJECTIVES, SCOPE, & METHODOLOGY

---

## **OBJECTIVES**

The objective of this investigation was to determine:

- Whether the District received services for the payments made to NOR Enterprises, Inc.

## **SCOPE**

The scope of this investigation covers:

- Payments made by Red Clay Consolidated School District to NOR Enterprises, Inc. during the period of July 1, 2005 through October 31, 2006.

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

## **METHODOLOGY**

The techniques used in this investigation included:

- Interviews and inquiry.
- Inspection and documentation.

The investigation consisted of the following procedures:

- Identify and summarize the District's policies and procedures related to receiving, monitoring, and paying for services from NOR Enterprises, Inc.
- Review requests for proposals (RFP) and contracts with NOR Enterprises, Inc.
- Review payment vouchers (PV), invoices, and supporting documentation for payments made to NOR Enterprises, Inc.
- Conduct interviews of District officials regarding services received from NOR Enterprises, Inc.
- Review the District's documentation of services received from NOR Enterprises, Inc. and District monitoring of vendor performance.
- Follow up on AOA's previous 2005 investigation of payments made to NOR Enterprises, Inc. by Red Clay Consolidated School District.

---

# CONCLUSIONS

---

The documentation received by the Red Clay Consolidated School District from NOR Enterprises Inc. did not sufficiently reflect the services that were performed at the schools during the period of July 1, 2005 through October 31, 2006, and as a result AOA could not determine from the documentation alone that the District received all the services as outlined in the contracts. Management authorized payments to NOR Enterprises, Inc. and they were not supported by appropriate documentation and monitoring of the services provided per the terms of the contract.

- The payments made by the District had inadequate supporting documentation and the business office does not reconcile the invoices to records of services performed.
- There were minimal records of services received by the District from NOR Enterprises, Inc. and no records of services prepared or maintained by the District or the Schools. Neither the District nor the Schools prepared or maintained records of services received from NOR Enterprises, Inc. including goals and objectives to be accomplished by NOR Enterprises, Inc., who received the services, the dates and times the services were received, who rendered the services, and other pertinent information regarding services.
- There was no documentation of the District's or individual School's monitoring of vendor performance.
- The District did not comply with State Bid Laws for the procurement of services from NOR Enterprises, Inc. totaling \$232,500 during fiscal year 2006. There were SES contracts with NOR Enterprises, Inc. in effect during the period July 1, 2005 to June 30, 2006. However, the services received from NOR Enterprises, Inc. were not Supplemental Educational Services (SES), as defined by DOE guidelines for Supplemental Educational Service Providers. This condition was disclosed to the District in the previous audit report by AOA dated April 20, 2005.
- The District did not comply with State Bid Laws for the procurement of services from NOR Enterprises, Inc. totaling \$29,000 from July 1, 2006 through October 31, 2006. During this period the District contracted with NOR Enterprises, Inc. as a sole source provider. The District's sole source documentation for NOR Enterprises, Inc., dated August 23, 2006, is not in accordance with the provisions of 29 Del. C. Section 6985, Sole Source Procurement, states there must be sufficient evidence that there is only one source, that no reasonable alternative sources exist, and documentation shall include the specific efforts made to determine the availability of any other source. The fact that the District issued an RFP in October 2006, identical to the terms of the agreement in effect with NOR Enterprises, Inc. at the time and received five proposals supports the fact that NOR Enterprises, Inc. is not a sole source provider.



---

# FINDINGS AND RECOMMENDATIONS

---

## **Finding #1 – Inadequate Documentation Supporting Payment of Invoices, Services Received and Monitoring of Contract**

The District paid invoices from NOR Enterprises, Inc. that were not supported by documentation detailing the services that were received in accordance with contract terms. The business office does not reconcile the invoices to records of service performed.

There were minimal records of services received by the District from NOR Enterprises, Inc. and no records of services prepared or maintained by the District or the Schools. Neither the District nor the Schools prepared or maintained records of services received from NOR Enterprises, Inc. including goals and objectives to be accomplished by NOR Enterprises, Inc., who received the services, the dates and times the services were received, who rendered the services, and other pertinent information regarding services.

There was no documentation of the District's or individual School's monitoring of vendor performance. The District is responsible for reporting and monitoring conditions per the terms of the contract or agreement, including documentation of parent and student support, activities consistent with services in support of the District and DOE curriculum goals and improvement and other outreach services.

*Internal Control - Integrated Framework*, published by COSO (Committee of Sponsoring Organizations of the Treadway Commission), defines control activities as policies and procedures that help ensure management directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents.

*The State Budget and Accounting Manual Chapter II states*, "transactions are to be properly authorized" and further defines authorization as "transactions approved by management."

*Internal Control - Integrated Framework*, published by COSO, defines authorization as, "the approval of transactions in accordance with policies and procedures established by management."

Management authorized the payments to NOR Enterprises, Inc., and AOA could not detect from the documents presented to the District by NOR Enterprises, Inc. that it reflected services as outlined in the contracts. If supporting documentation is not received or reconciled to invoices, management cannot ensure that all transactions are accurate, valid, and appropriate. The District could be paying for services that were never rendered, poor quality of services, insufficient services, services provided to the wrong students, or services provided at the wrong time.

## **Recommendation**

We recommend that the District agree invoices from NOR Enterprises, Inc. to appropriate supporting documentation to ensure that the services as outlined in the contract were received prior to payment. We further recommend that the District or the Schools maintain records of services received from

---

# FINDINGS AND RECOMMENDATIONS

---

NOR Enterprises, Inc. and monitor and report on vendor performance, and document the monitoring that is performed. AOA also recommends that the District review the overall cost of the program in light of the functions performed by NOR Enterprises, Inc. to insure that it is paying the proper rate for these services.

## **Auditee Response**

While the District acknowledges that it did not receive consistent, thorough documentation from NOR Enterprises, Inc. reconciling each bill with the services provided, the District rejects any inference that the District did not receive the required services. The District agrees it did not require more consistent documentation because the NOR Enterprises Inc. employees were assigned full-time at the high schools in question. The Principal and Assistant Principals at those schools observed and supervised such person each day, often using them to assist District staff during high density periods when student conflicts were more likely to occur (cafeteria periods, times of heavy traffic in the halls, etc.).

With respect to the aforementioned high school administrators, each administrator confirmed that NOR Enterprises, Inc. maintained a regular presence in their respective high schools. The administrators also confirmed that the NOR Enterprises, Inc. representatives maintained on-site work-hours consistent with the students' academic week (i.e., Monday through Friday from approximately 7:30 a.m. to 2:30 p.m.), would call in sick or if they were late, and conducted home visits.<sup>1</sup> More importantly, the high school administrators represented that, in their personal opinion as educators, NOR Enterprises, Inc. offered a special service that the District's staff could not otherwise provide.

Red Clay has a large and diverse population with many students who are considered "at-risk". NOR Enterprises, Inc. provides school and community-based services that supplement the programs traditionally offered by a school district. These supplemental services are intended specifically to help "at-risk" students who need and/or could benefit from extra attention. In order to implement "at-risk" intervention/counseling services, NOR Enterprises, Inc. physically allocates a representative to each participating school. These representatives are to be used at the school's discretion within the bounds of the services agreement. In this case, the high school administrators typically at each school referred between 15 and 20 "at-risk" students to the NOR Enterprises, Inc. representative at the beginning of the school year.<sup>2</sup> It was NOR Enterprises, Inc. representative's responsibility to meet with his or her assigned students during and, when necessary, after school hours on a regular basis to monitor, among other things, the students' academic progress and to meet with the students' parents/guardians during home visits. NOR Enterprises, Inc. representatives were also asked to maintain an open door for all students.

The District agrees that it was lax in requiring documentation of NOR Enterprises, Inc. employees' outside of school, in the community, and for its home visits.

The District will insert into future contracts with the provider the following requirements:

1. Bi-weekly or monthly requirements summarizing all activity between the interventionist and each student assigned to him/her;
2. Establish a daily sign in/sign out log at each school for the interventionist;
3. With respect to home visits and community interaction, the interventionists will be required to provide bi-weekly reports of their activities as well as time records reports showing hours spent on such activities.

---

# FINDINGS AND RECOMMENDATIONS

---

4. The District will audit and review the interventionists' student case files to insure that the work reflected therein is consistent with the Contractor's bi-weekly and monthly reports.

The District rejects any inference that it was not receiving the contracted services or that it failed to monitor same. As shown below, each school Administration team monitored and oversaw the actions of the interventionist assigned to that school. Each interventionist worked with between fifteen (15) and twenty (20) at risk students in the school.

Examples of services provided, as detailed by the School Administration, are as follows:

- NOR Enterprises, Inc. provided home visitation services to children and their parents/guardians that District teachers and counselors could not otherwise provide;
- NOR Enterprises, Inc. provided outreach in the "at-risk" students' home communities in order to build better relationships and understanding between the communities and the District;
- NOR Enterprises, Inc. effectively reached out to parents/guardians who were otherwise unwilling (or hostile to) or less willing to entertain overtures from school administrators and/or school counselors, which allowed NOR Enterprises, Inc. to facilitate a relationship between the parents/guardians and the District (i.e., but for the third party, out-of-school intervention, some parents/guardians would not have become involved in their children's academic development);
- NOR Enterprises, Inc. representatives made a full-time commitment to any child who wanted help and would pursue the counseling relationship outside of school to ensure that the child was maturing inside and outside of the classroom;
- NOR Enterprises, Inc. representatives served as mediators in conflicts between students;
- NOR Enterprises, Inc. representatives diffused aggressive student behavior before escalating into violence. This involved conduct at school as well as conduct in the community which spilled over into the schools;
- NOR Enterprises, Inc. representatives provided extra guidance and counseling on every day common courtesies that students otherwise failed or refused to observe (e.g., foul language, disruptive behavior in the classroom, disrespecting authority figures, failing to follow rules, etc.);
- NOR Enterprises, Inc. representatives monitored the attendance habits of "at-risk" students and proactively worked to reduce truancy;
- NOR Enterprises, Inc. representatives identified conflicts fueled by gang affiliations stemming from relationships outside of school that otherwise likely would have gone undetected by school officials;
- NOR Enterprises, Inc. representatives took an active role in placing pregnant students in Delaware's special assistance programs and were better prepared to provide counseling;

---

# FINDINGS AND RECOMMENDATIONS

---

- NOR Enterprises, Inc. representatives collected assignments for pregnant students who were unable to attend school and took them home and monitored their work;
- School officials attribute that NOR Enterprises, Inc. representatives were, in some cases, entirely responsible for persuading students (actually named by the administrators) to stay in school;
- NOR Enterprises, Inc. representatives would physically intervene to break up fights on school property;
- NOR Enterprises, Inc. representatives provided students with an outlet for guidance, counseling and tutoring beyond traditional school district employees;
- NOR Enterprises, Inc. representatives would, at times, sit in the classroom with a student to provided one-to-one assistance with that student;
- One NOR Enterprises, Inc. representative was so outstanding that the District, in fiscal year 2007, hired that person as a full-time teacher at McKean High School;
- NOR Enterprises, Inc. representatives brought motivational speakers to campus and provided "at-risk" students with opportunities to attend motivational speakers outside of school; and
- NOR Enterprises, Inc. representatives maintained files on each student with which they worked.

While these anecdotal examples are not intended to replace proper documentary evidence or excuse the lack of proper paperwork, the anecdotal evidence clearly shows that substantive services were provided during the period in question.

---

<sup>1</sup> In one case, the high school administrator explained that the NOR representative maintained reduced in-school hours (i.e., Monday, Tuesday, Thursday and Friday from approximately 9:00 a.m. to 1:00 p.m.). In this particular case, however, the high school administrator explained that the NOR representative maintained substantial out-of-school hours with students and their parents/guardians, because she was mentoring a number of pregnant teenagers who were not physically in school.

<sup>2</sup> In one case, the school administrator did not formally assign students to the NOR Enterprises, Inc. representative. Rather, the school administrator identified students throughout the course of the year and offered the services generally to the student population. In this case, the school administrator represented that the NOR Enterprises, Inc. representative counseled 10 to 15 students per day and fostered dozens of positive relationships with the school's students.

---

# FINDINGS AND RECOMMENDATIONS

---

## **Finding #2 - Non-Compliance with State Bid Laws**

The District did not comply with State Bid Laws for the procurement of services from NOR Enterprises, Inc. totaling \$232,500 during fiscal year 2006. There were SES contracts with NOR Enterprises, Inc. in effect during the period July 1, 2005 to June 30, 2006. However, the services received from NOR Enterprises, Inc. were not Supplemental Educational Services (SES), as defined by DOE guidelines for Supplemental Educational Service Providers. Therefore, NOR Enterprises Inc.'s presence on the list of approved supplemental educational services vendors does not relieve the District from the requirement for a formal RFP process. The District chose not to comply with state bid laws in its purchase of services from NOR Enterprises, Inc. during fiscal year 2006. This condition was disclosed to the District in the previous audit report by AOA dated April 20, 2005.

*Delaware Code Title 29 Chapter 69, State Procurement* states that agencies are required to use the formal bidding procedures when a purchase is made in an amount that exceeds the threshold limit. For professional services, \$50,000 and over requires a formal bid.

The District did not follow State procurement laws and continued to operate as had been done in the past. By not following the State bid laws, the District may not be obtaining the highest quality services at the best possible price.

## **Recommendation**

The District comply with State of Delaware Law regarding procurement of professional services. The purchase of professional services under \$50,000 requires no quotes or bids. For costs of \$50,000 or more, a public advertised bid request must be developed, advertised, and a formal bid opening must take place.

## **Auditee Response**

The District believes that there is much confusion concerning its obligation whether or not to subject this contract to the bidding process as per the state bid laws. The District's response to this issue will follow. However, to insure that there is no issue in the future, the District has prepared a request for proposal ("RFP") which will be utilized to select the provider of services for the 2007-2008 academic year. "The District has incorporated its response in Finding #3."

## **Finding #3 – Inadequate Sole Source Documentation/Non-Compliance with State Bid Laws**

The District did not comply with State Bid Laws for the procurement of services from NOR Enterprises, Inc. totaling \$29,000 from July 1, 2006 through October 31, 2006. During this period the District contracted with NOR Enterprises, Inc. as a sole source provider. The District's sole source documentation for NOR Enterprises, Inc., dated August 23, 2006, is not in accordance with the provisions of 29 Del. C. Section 6985, Sole Source Procurement, that states there must be sufficient evidence that there is only one source, that no reasonable alternative sources exist, and documentation shall include the specific efforts made to determine the availability of any other source. The fact that the District issued an RFP in October 2006, identical to the terms of the agreement in effect with NOR Enterprises, Inc. at the time and received five proposals supports the fact that NOR Enterprises, Inc. is not a sole source provider.

---

# FINDINGS AND RECOMMENDATIONS

---

Title 29 Del. C. Section § 6985, Sole Source Procurement states “(a) A contract may be awarded for professional service without competition if the agency head, prior to the procurement, determines in writing that there is only 1 source for the required professional service. Sole source procurement shall not be used unless there is sufficient evidence that there is only 1 source for the required professional service and that no other type of professional service will satisfy the requirements of the agency. The agency shall examine cost or pricing data prior to an award under this section. Sole source procurement shall be avoided, except when no reasonable alternative sources exist. A written determination by the agency on the basis for the sole source procurement shall be included in the contract file. (b) An agency seeking a sole source procurement shall prepare written documentation citing the existence of a sole source condition. The document shall include the specific efforts made to determine the availability of any other source and an explanation of the procurement need. The agency may, for confirmation, submit this documentation to the Section for review and comment prior to the intended date of award. (c) The agency shall negotiate with the single supplier, to the extent practicable, a contract advantageous to the agency. The agency shall enter into a formal contract stating the terms and conditions of the procurement.”

*Delaware Code Title 29 Chapter 69, State Procurement* states that agencies are required to use the formal bidding procedures when a purchase is made in an amount that exceeds the threshold limit. For professional services, \$50,000 and over requires a formal bid.

The District did not comply with State procurement laws. By not following the State bid laws, the District may not be obtaining the highest quality services at the best possible price.

## **Recommendation**

The District comply with State of Delaware Law regarding procurement of professional services. The purchase of professional services under \$50,000 requires no quotes or bids. For costs of \$50,000 or more, a public advertised bid request must be developed, advertised, and a formal bid opening must take place. When contracting for a sole source provider the District must comply with state procurement laws, 29 Del. C. Section § 6985.

## **Auditee Response**

The District’s response to the Auditor’s conclusion regarding non-compliance with the State Bid Laws is as follows:

NOR Enterprises, Inc. has provided services to Red Clay dating back to 2002-2003 when it provided services under the Title I program. NOR Enterprises, Inc. had been selected as a supplemental service provider by the District. NOR Enterprises, Inc. was on the State-approved supplemental service provider list.

Subsequent to 2002-2003, Title I funds were no longer available. The District then decided to use local funds to maintain this program. The District determined that the program had been quite successful in at least three aspects:

1. Helping "at risk" students stay in school and complete graduation requirements;
2. Correcting behavior and resolving conflict in the schools; and

---

# FINDINGS AND RECOMMENDATIONS

---

3. Providing a strong nexus into the urban community to involve parents and guardians who had otherwise been found hostile or indifferent to School Administration.

Prior to the 2004-2005 academic year, the District Business Office inquired of the Auditor's Office as to whether it was required to bid this contract or whether it could use the State's supplemental service list. The Auditor's Office confirmed that the District could select the provider from the State's Supplemental Service List. It accepted the advice of the Auditor's Office and did so.

The Auditor's Office audited, inter alia, the District's contract with NOR Enterprises, Inc. in 2004-2005. Therein the Auditor then asserted that NOR Enterprises, Inc. did not meet the requirements to be a Supplemental Service Provider. Although this was contrary to the Auditor's prior advice to the District, the District accepted the conclusion and did not select NOR Enterprises, Inc. on that basis thereafter.

However, the District then concluded that NOR Enterprises, Inc. was the only vendor with specific experience in both mentoring "at risk" students and providing an effective outreach nexus into the urban community. Consequently, the District contracted with NOR Enterprises, Inc. by approving a sole source procurement award, which it believed was in compliance with the Delaware Bid Laws. The District in good faith believed that NOR Enterprises, Inc. was a sole source provider.

The instant draft report cites the fact that the District has received five (5) responses to a subsequent RFP on this issue as evidence that NOR Enterprises, Inc. is not a sole source provider.

However, in reviewing these responses, it is not clear that such responses demonstrated effective experience in all aspects of the program.

The District submits that its action in selecting NOR Enterprises, Inc. first from the State's Supplemental Service Provider and then as a sole source provider, was in good faith. However, the District commits that future contracts for such services will be selected through the RFP process in compliance with the Delaware bid law.

## **Auditor's Comment**

In your May 3, 2007, letter you stated that "Prior to the 2004-2005 academic year...The Auditor's Office confirmed that the District could select the provider from the State's Supplemental Service List." And the audit report dated April 20, 2005, "then asserted that NOR Enterprises, Inc. (NOR) did not meet the requirements to be a Supplemental Service Provider." The audit report actually stated that the services provided by NOR Enterprises, Inc. (to the District) did not meet the criteria of the RFP for Supplemental Educational Service Providers. We did not say NOR Enterprises, Inc. did not meet the requirements to be a Supplemental Service Provider. That's a very important difference because NOR was on DOE's list of approved Supplemental Educational Service Providers. The fact is the District was not using NOR to provide Supplemental Educational Services.

---

# FINDINGS AND RECOMMENDATIONS

---

**For FY07** the District contracted NOR to provide supplemental services for dropout prevention, mentoring, and counseling for at-risk students (behavior intervention program), which is more in line with the services NOR was providing. Per the terms of the contract we requested from District officials, high school principals, and a NOR employee documentation supporting and detailing the services provided. Adequate support would include the plans for intervention with students in the program and outlined goals, assessments and post assessments, timetables for improving a student's condition, etc. This type of documentation was not provided for FY07. We learned from our interviews with District principals and a NOR employee that NOR does not provide the schools with written reports, but does provide verbal communication. From the interviews we also learned that NOR's performance is not being measured by the schools.

And again the District did not comply with State Bid Laws. During this period the District contracted with NOR as a sole source provider. The District's sole source documentation for NOR, dated August 23, 2006, is not in accordance with the provisions of 29 Del. C. Section 6985, Sole Source Procurement, that states there must be sufficient evidence that there is only one source, that no reasonable alternative sources exist, and documentation shall include the specific efforts made to determine the availability of any other source. The fact that the District issued an RFP in October 2006, identical to the terms of the agreement in effect with NOR at the time and received five proposals supports the fact that NOR is not a sole source provider.

The District's response indicates that NOR is the only vendor with specific experience in both mentoring "at risk" students and providing an effective outreach nexus into the urban community. That may be so, but the FY07 contract and the RFP do not address providing an effective outreach nexus into the urban community and therefore, is not something AOA can use as a criteria in evaluating the terms of the contract with actual performance. The District needs to be very clear in both its contract terms and RFP criteria in order to evaluate and select the best vendor to meet their needs.

## **Finding #4 – Inadequate Written Policies and Procedures**

The District does not have adequate written policies and procedures addressing receiving, monitoring, and payment of services.

Management is responsible for establishing internal controls through written policies and procedures. Written policies and procedures are beneficial for identifying and ensuring that control objectives are met, as well as the training of current and new employees, and are a valuable resource in the event an employee leaves the District. Policies and procedures should be updated regularly and include sufficient information to permit an individual who is unfamiliar with the District's operations to perform the necessary activities.

Documentation is an important aspect of control and communication. It generally provides (1) an understanding of an entity's objectives, (2) a basis for training new personnel, (3) a means of communicating common information, (4) a source of information about accounting controls, and (5) a source of information that will aid in providing continuity in the event experienced personnel leave.

The State of Delaware *Budget and Accounting Manual* Chapter II states, "A well designed system of controls must include written policies and procedures to ensure that each control objective is met."



---

# FINDINGS AND RECOMMENDATIONS

---

*Internal Control - Integrated Framework*, published by COSO, defines control activities as policies and procedures that help ensure management directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, written policies and procedures need to be established, communicated to employees, and documented.

The District has not fully documented their policies and procedures for current operating processes. Processes and policies may not be properly communicated to employees nor consistently followed. There is no assurance that new and existing personnel will have adequate guidance in performing their assigned tasks or that the District will be in compliance with applicable laws and regulations. This lack of written procedures increases the risk of loss of funds and theft of assets.

## **Recommendation**

The District develop written policies and procedures to properly and adequately detail the receiving, monitoring, and payment of services. Policies should include:

- The identification of positions/individuals who (a) maintain the record of services received at the schools, (b) authorize transactions, (c) reconcile the services received to the invoices, and (d) review the reconciliations;
- Incorporation of all applicable laws and regulations.

## **Auditee Response**

The District acknowledges that it failed to maintain adequate written policies addressing receiving, monitoring and payment of services and accepts the recommendation of the Audit.

In summary, the District agrees that the administrative aspect of our relationship with NOR Enterprises, Inc. needs improvement and Red Clay is committed to doing so. Furthermore, the District has already launched an RFP process prior to the AOA's investigation, so it is assumed that the District has no remaining differences in that regard. In the end, the District substantively disagrees only with the AOA's suggestion that Red Clay did not get value for its dollars, and the District's disagreement in that regard is strong. However, with our commitment to improve our documentation, that dispute should also be resolved in the future.

# Status of Prior Year Findings and Recommendations

Finding	Recommendation	Management Response	Current Year Status*
<i>Financial Stewardship</i>			
NOR Enterprises, Inc. was not an approved contractor under the DOE RFP.	Comply with the provisions of the Delaware Department of Education RFP for Supplemental Educational Service Providers.		N/A – Per the prior report, NOR Enterprises, Inc. was not on DOE’s list of approved Supplemental Educational Service Providers effective October 2004.
The District was not in compliance with provisions of the RFP for Supplemental Educational Service Providers, issued by DOE. The services provided by NOR Enterprises, Inc. did not meet the criteria of the RFP for Supplemental Educational Service Providers.	Comply with the provisions of the Delaware Department of Education RFP for Supplemental Educational Service Providers. Comply with Title 29, Del. C. §6981, regarding state procurement for services purchased from NOR Enterprises, Inc. that are not considered supplemental educational services.	The District resolves that it will...c) ensure that all future contracts for the use of supplemental support services meet the requirements of DOE prior to award or that requests for proposals be solicited for contracts over \$50,000 from companies whose activities are independent of the DOE criteria.	<b>Not Implemented.</b> The District continued to contract with NOR Enterprises, Inc. as a Supplemental Education Service Provider for Fiscal Year 2006. The District did not ensure that future contracts (through October 31, 2006) for supplemental support services met the DOE requirements prior to award or that Requests for Proposals be solicited for contracts over \$50,000 from companies whose activities are independent of the DOE criteria.
NOR Enterprises, Inc. did not submit adequate documentation to support that appropriate services were provided. The District did not monitor the required provisions of the agreement.	Maintain documentation to support and verify that contracted services are received from supplemental educational service providers. Monitor the performance of supplemental educational service providers. Determine whether or not NOR Enterprises, Inc. fulfilled their contractual obligations, and if not, request repayment from NOR Enterprises, Inc. where appropriate.	The District does bear responsibility for reporting and monitoring conditions after the award of the contract, including the documentation of parents and student support, activities consistent with services, in support of district and DOE curriculum goals and improvement, and other outreach services. The District resolves that it will a) audit all documentation from NOR Enterprises, Inc. in support of its services to the respective schools; b) remand payment back to the District for services not documented...	<b>Not Implemented.</b> The District did not audit any documentation from NOR Enterprises, Inc. in support of its services to the schools. The District did not remand payment back to the district for services that were not documented. The District does not maintain documentation to support and verify that contracted services are received. The District does not monitor the performance of NOR Enterprises, Inc.

---

# Status of Prior Year Findings and Recommendations

---

\* **Status Key:**

- **Implemented:** The concern has been addressed by implementing the original or an alternate corrective action.
- **Not Implemented:** The corrective action has not been initiated.
- **Partially Implemented:** The corrective action has been initiated but is not complete and the auditor has reason to believe management fully intends to address the concern.

---

# DISTRIBUTION OF REPORT

---

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware  
The Honorable Valerie Woodruff, Secretary, Department of Education

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General

Other

Mr. Irwin J. Becnel, Jr., President, Board of Education, Red Clay Consolidated School District  
Dr. Robert J. Andrzejewski, Superintendent, Red Clay Consolidated School District  
Mr. J. Brett Taylor, Chief Financial Officer, Red Clay Consolidated School District